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SENSITIVE

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SUBJECT: CENTRAL HIGHLANDS PROVINCE OPEN TO U.S. AID

REF: A) HCMC 1493 B) HCMC 1173

1. (U) This is a Ho Chi Minh City - Hanoi joint reporting cable.

2. (SBU) SUMMARY: An ECON HCMC-Hanoi and USAID visit to the Central Highlands province of Kon Tum revealed the area's economic and development situation is particularly desperate, even compared with its impoverished Central Highlands neighbors. Trade and investment levels are low, and state-owned enterprises (SOEs) dominate. Government, local non-government organizations (NGOs) and some international organizations provide assistance for poverty reduction, including for ethnic minorities, but Kon Tum's average income is roughly half that of Vietnam as a whole, and ethnic minorities still largely fall outside the province's economic structure. Kon Tum authorities are eager for U.S. assistance, which contrasts with other Central Highlands provinces, like Dak Lak, which are uninterested in any activity that might hinder government control of the province. END SUMMARY.

LOW GDP, EXPORT, FDI AND ODA NUMBERS

3. (U) Hanoi Econ counselor, USAID Country Manager and HCMC EconOff visited Kon Tum December 13-15 to assess the province's economic and development progress. The northernmost of the Central Highland provinces, Kon Tum is a thinly populated and densely forested area that borders Cambodia and Laos. According to local authorities, more than half of Kon Tum's 370,000 residents are ethnic minorities, and 64 percent of the province is forested.

4. (SBU) Kon Tum People's Committee Chairman-elect, Mr. Ha Ban, reported that Kon Tum's average annual growth rate in the last ten years was 11 percent. However, much of this growth was due to exploitation of the province's forest resources, which has been halted. Figures that give a more realistic picture of Kon Tum's economic status are per capita GDP, export turnover, foreign direct investment (FDI) and overseas development assistance (ODA). According to Chairman-elect Ban and his colleagues at the Departments of Planning and Investment (DPI) and Trade and Tourism, per capita GDP in 2004 is \$260, barely half the national average. Kon Tum exports less than \$10 million a year in goods, mainly coffee and furniture. The province has only one FDI project, a \$4.5 million Thai investment in a tapioca processing plant that is under construction. In the last ten years, Kon Tum has received only \$40 million in ODA, mostly from the European Union (EU) for infrastructure projects. These numbers compare unfavorably with neighboring Dak Lak Province, which, for example, exports \$250 million a year and has received \$100 million in ODA from Denmark alone (ref A).

5. (SBU) Kon Tum authorities appeared to be pinning their hopes for growth and development on the planned Ho Chi Minh Highway, which will trace the path of the Ho Chi Minh Trail. Local leaders hope the highway's intersection - 300 kilometers north of Kon Tum -- with the East-West Corridor highway from Danang across Southeast Asia to Burma will open up the province to more regional trade and tourism. Kon Tum authorities also noted with pride that Kon Tum is part of the development triangle identified by the prime ministers of Vietnam, Laos and Cambodia that includes nine Vietnamese provinces and neighboring provinces in Laos and Cambodia. However, specifics on how this triangle of provinces will promote development were not forthcoming.

SOEs AND A LITTLE PRIVATE ENTERPRISE

6. (SBU) That SOEs still dominate Kon Tum's economy was illustrated during our visit to the local branch of the Bank for Investment and Development, an SOE itself. According to Mr. Tran Lam, the bank's director, loans to SOEs make up 70 percent of bank lending because "there are very few private enterprises in Kon Tum." Mr. Lam said the bank primarily lends to state-owned coffee and rubber companies because they create the most jobs in the province and the bank can thus contribute to employment and poverty reduction. The only three banks with branches in Kon Tum are state-owned banks.

7. (SBU) While most private enterprises in Kon Tum are small-scale, at least one private investor has had success in the province. Duc Nhan Company produces outdoor furniture for export

mainly to Europe; in 2004, the company expects to export 250 containers of furniture. Duc Nhan is one of 70 factories that contract with Danish furniture-maker ScanCom International. According to Nguyen Thanh Nhon, director of Duc Nhan, and Chad Ovel, managing director of ScanCom Vietnam, furniture companies in the Central Highlands like Duc Nhan originally developed because of their proximity to wood sources; with the stoppage of forest exploitation in Vietnam, furniture companies now import wood from South America, Malaysia and South Africa. While a company like Duc Nhan is competitive in terms of low labor costs, the cost of transporting wood inland from seaports could in the future diminish the viability of furniture enterprises in the Central Highlands.

ETHNIC MINORITIES POOR AND MARGINALIZED

18. (SBU) According to Kon Tum authorities, 54 percent of Kon Tum's population consists of ethnic minorities. Local agencies like the Department of Health, the Department of Labor, Invalids and Social Affairs (DoLISA), and the Women's Union have assistance and micro-credit programs for the poor, the majority of whom are ethnic minorities. One standout is a Department of Health program to educate doctors to work in villages throughout the province. Of the 90 medical students whose training is being funded by the Department of Health, 81 are ethnic minority members. However, most of the ethnic minority population appears to fall outside the economic system. Only one company we visited reported employing ethnic minorities, which made up 10-15 percent of that enterprise's workforce. The state-owned Dak Uy Coffee Company reported it did not employ ethnic minorities because there were no ethnic minorities in the area from which they draw their employees.

KON TUM EAGER FOR U.S. AID

19. (SBU) In virtually all of our meetings, local officials asked what U.S. aid might be available to the province. They asked in particular for infrastructure assistance and noted the need to develop Kon Tum's limited road network. USAID Country Manager described the nature of U.S. assistance to Vietnam and noted that USAID would be reviewing its Vietnam program next year. Options for assisting Kon Tum in the areas of micro-credit or disabilities would be included in the review. (NOTE: USAID has one modest activity in the area, a low-key effort via the Pearl S. Buck Foundation on inclusive education for the disabled. END NOTE.)

COMMENT

110. (SBU) While most of the Central Highlands provinces are plagued by low economic growth and the social/economic/religious dilemmas of the ethnic minority issue, Kon Tum appears especially affected by these problems. The provincial leadership indicated a willingness to work with the United States, including allowing an active U.S. NGO presence, if the result was monetary assistance. This contrasts with the attitude of authorities in Dak Lak, who view further development and opening up of the province as a threat to the government's ability to keep a lid on local socio-economic forces (ref A).

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